

ADVISORY PANEL ON CONSUMER PRICES – STAKEHOLDER

Minutes**17 September 2018****Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ****10:30 – 13:00****Members in attendance**

Dame Kate Barker (Chairman)	Mr Michael Hardie (ONS)
Mr Daniel Gallagher (HM Treasury)	Mr Simon Hayes (Bank of England)
Mr Geoff Tily (Trades Union Congress)	Mr Ian Rowson (Civil Aviation Authority)
Mr Matthew Whittaker (Resolution Foundation)	Ms Sally West (Age UK)

Secretariat

Mr Andy King (ONS)
Ms Jaya Jassi (ONS)

Presenters

Mr Jay Ahmed (ONS)

Apologies

Mr Jonathan Athow (ONS)
Mr Richard Barwell (BNP Paribas)
Ms Jill Leyland (Royal Statistical Society)
Mr Andrew Sentance (PricewaterhouseCoopers)
Mr Nick Vaughan (ONS & Chair of the Technical Panel)

1. Introduction, apologies and actions

Paper APCP-S(18)09 - published

- 1.1. The chairman welcomed the attendees to the APCP-Stakeholder (APCP-S) meeting and passed on apologies from those who were unable to attend.
- 1.2. The panel expressed their appreciation to Ms Sally West, who is stepping down from the panel, and thanked her for her contributions.
- 1.3. The chairman welcomed two new members to the panel; Mr Michael Hardie, replacing Mr Mike Prestwood as the head of prices for the foreseeable future, and Mr Andy King, replacing Dr James Tucker as the head of CPI user engagement.
- 1.4. The actions and minutes from the previous meeting held on 25 May 2018 were discussed. A technical reference was circulated regarding the variance on prices and the effect on price indices. All other actions are works in progress and to be carried forward to the next meeting.

Action 1: ONS to carry forward relevant actions from the previous meeting

- 1.5. There were no further comments from the panel on the previous meeting's minutes and actions.

2. Technical Panel Update

- 2.1. Mr Hardie gave an update on the outcomes of the discussions at the Technical Panel (APCP-T) meeting on 7 September 2018. With regards to updating the shop type weights, Technical Panel members suggested two alternative data sources to the Retail Sales Index (RSI) – the Annual Business Survey (ABS) and the Annual Survey of Goods and Services (ASGS). The Inter-Departmental Business Register (IDBR) could also be used to identify the multiple and independent split between stores.
- 2.2. Technical Panel members recommended that the variance estimates for CPIH paper be developed into an academic article that lays out all the areas of error and whether they can be quantified or not.
- 2.3. The update regarding the proposed pipeline for processing alternative data sources is given under item 5.
- 2.4. The final paper discussed was on web-scraping. Technical Panel members questioned how reliable using product rankings on a webpage as a proxy for expenditure weights is and suggested further research, looking at total transactions rather than total expenditure. A Stakeholder Panel member suggested looking at what other countries, that are more advanced with alternative data sources, are doing. Another panel member questioned whether other countries, that have incorporated alternative data sources, have seen any noticeable changes in the headline measure. It was noted that changes in the aggregate level, for countries that have adopted web-scraping, have been small.
- 2.5. ONS are currently speaking to retailers to obtain access to scanner data and have a new Data Access Platform that is able to process big datasets.

3. Reviewing the methodology of the used car price index

Paper APCP-S(18)10 – This is work in progress and will be published once the development work has been completed

- 3.1. Mr Ahmed gave an overview of the paper, which provides evidence for why the age of cars used in current methodology, the lack of inclusion of Personal Contract Purchase (PCP) and the current data source used are all issues.
- 3.2. There was some discussion over why only two-year and three-year old cars are included in the used cars index. There was agreement from the panel that ONS should extend the age of cars looked at in the used cars index.
- 3.3. The panel queried why some of the research only focused on data from 2018, as it proved difficult to draw strong conclusions. Mr Ahmed responded that it was the only data that was available on the website. ONS has a contract with Glass's Guide that allows a limited amount of data to be collected from their website and so ONS are hoping to move to alternative data sources for measuring car prices.
- 3.4. How to incorporate PCP cars into the index was discussed – should they be separate from the used cars index that is based upon an acquisition approach, given that PCP cars operate as a form of rental. A panel member pointed out that when renting a car there are two components:

the cost of the car and the cost of finance, which may mean that the price data may be adversely affected by the financial component.

- 3.5. It was pointed out that, from a Household Costs Indices (HCI) perspective, you would want to include the finance cost, but perhaps not in CPIH. It was queried whether this was considered in the development of the HCI's. Currently there is no method for including capital costs into the HCI's. An additional Technical Panel is being held to discuss further developments to the HCIs. The chairman asked for the agenda and papers for this meeting to be circulated to the Stakeholder Panel. The next release for HCIs will be in early 2019.

Action 2: ONS to circulate agenda and papers for the additional Technical Panel meeting to the Stakeholder Panel

- 3.6. A panel member noted that the Bank of England has done some work on this so it would be useful for ONS to discuss this with them.
- 3.7. Another panel member raised that Loughborough University calculate a Minimum Income Standard (MIS) measure, which includes cars in the basket. The MIS is then used to set the Living Wage and so any changes to used car prices are sensitive. A suggestion was made for the Stakeholder Panel to hold a session on the users and uses of inflation measures to better inform the discussions had at meetings.
- 3.8. A discussion was had over public interest and value to having such information. It was questioned whether there is potential for ONS to have legislative access to commercial data, providing there are adequate safeguarding measures in place. Mr Hardie responded that ONS have recently published a high-level 'users and uses of consumer price inflation statistics'¹ article. ONS are also having conversations with retailers regarding sharing data and including wider data access in agreements.
- 3.9. There was further discussion about the downwards trend that the used car prices index shows and whether this is implausible. The downwards trend hasn't been proved or disproved and so further research needs to be done to answer this question. It was noted that as a proportion of the overall credit market PCPs are not a significant amount, however the concern is that firms that are lending aren't the traditional large lenders.

4. The use of the retail price index (RPI)

Paper APCP-S(18)11 – This paper will be published alongside the minutes

- 4.1. The chairman introduced this discussion and suggested the Stakeholder Panel give John Pullinger specific advice on how to proceed with the RPI, subsequent to advice given by the House of Lords committee.
- 4.2. The Chancellor has recently attended the Lords Economic Affairs Committee and has said that in the longer term the preference is that CPIH becomes the main measure of inflation. It was noted that business rates have moved from being uprated by RPI to CPI and CPIH has received

¹

<https://www.ons.gov.uk/economy/inflationandpriceindices/methodologies/usersandusesofconsumerpriceinflationstatisticsjuly2018update>

its National Statistic status. The Chancellor also stated that ‘the choice of price index was in the remit of the ONS’.

- 4.3. Panel members gave their views on how they thought best to proceed with the RPI. A panel member felt that something should be done in order to remove the overestimation of RPI that has occurred since 2010, by excluding the clothing element. Beyond this, it would be very difficult to make changes to the RPI, due to legal reasons.
- 4.4. One panel member thought that as CPIH and HCIs fulfil most user needs, a practical approach for the RPI would be to synthesise it as ‘CPIH + differences between the two measures’, such as differences in coverage and formula used.
- 4.5. Another panel member felt that the ONS position is untenable and that something must be done about the RPI. There was a suggestion to review the formula used, as the formula effect issue hasn’t been properly resolved. In attempt for a quick fix on the RPI, clothing, for example, could be dropped from the index and then leave RPI as it is, and then there could be a review of formulae used in the HCI’s.
- 4.6. A fourth panel member expressed that the problem is that there was a structural shift in RPI, against the real world, in 2010 and now the difference between RPI and CPI is unambiguously high. This shift had a big impact on various groups in the economy, repurposed RPI and RPI expectations haven’t been honoured. The RPI as it is, is unsustainable. The panel member felt that fixing the clothing issue could potentially solve the structurally high RPI.
- 4.7. Another panel member also felt that something needs to be done about the RPI and that the clothing issue needs to be looked at.
- 4.8. The Bank of England’s stance on the RPI is that over a period of time there should be plans to phase it out and one reason is because it’s not helpful. The difference between RPI and CPI causes confusion and questions in the public eye. In the long term, ideally there will be price indices based on a sound conceptual background and a guide on how to use them.
- 4.9. ONS have set out a clear landscape for the future of inflation statistics and have no plans to revisit the methodology on RPI.
- 4.10. There was some discussion over who benefits from the RPI. For DB pensioners, it depends on the pension scheme they are members of, with some pensioners benefitting from RPI, whilst others don’t. Over a 20-year period, people would be considerably better off under an RPI-based pension rather than other index-linked pensions.
- 4.11. The 2010 change to clothing collection, that had an impact on RPI, caused a change to RPI that was outside of expectations. However, a panel member felt that any changes to RPI should be purely based on statistics and not who is better or worse off. It was suggested that the Technical Panel could revisit the formula issue and also consider how the clothing issue could be addressed.

Action 3: Technical Panel to revisit the formula issue and consider how the clothing issue could be addressed

- 4.12. There was a suggestion for the panel to meet again, subsequent to the House of Lords inquiry report, in order to write a letter to John Pullinger with advice on how to proceed with

the RPI. One panel member proposed that this meeting could take place without the ONS being present. A further suggestion was to invite John Pullinger to the meeting and host a question and answer session with him.

- 4.13. The Stakeholder Panel noted that any radical changes to prices indices, such as phasing out RPI, would have a big impact, given legal complexities, and so ONS cannot be expected to achieve any changes on their own.

5. Proposed pipeline for processing alternative data sources

Paper APCP-S(18)12 – This paper will be published alongside the minutes

- 5.1. Mr Hardie provided an overview of the paper and gave an update on the outcomes of the discussion at the Technical Panel meeting. Technical Panel members felt that there was too much information in the paper and would prefer a detailed paper for each individual aspect of the pipeline. ONS' aim is to produce some exploratory analysis on web-scraped data later in the year, and on scanner data next year.
- 5.2. Mr Hardie stated that before any alternative data sources can be included in the headline measure there will need to be a minimum of a two-year impact analysis.
- 5.3. A panel member questioned whether ONS think alternative data sources will work, whether they will be cost effective and if any milestones have been set out. Another panel member outlined the potential risks of using alternative data sources and encouraged ONS to continue to set out their plans and be transparent about any challenges they face. Mr Hardie responded that the ONS are active in terms of pursuing scanner data but not in including it into the headline measure. Retailers have indicated towards providing free data due to the Digital Economy Act, but cost savings in terms of the local collection aren't that big. There are currently no milestones set out as ONS do not yet have scanner data.
- 5.4. Another panel member questioned the reason for using alternative data sources. Mr Hardie explained that alternative data sources provide more granular information and a better coverage. It will also enable ONS to calculate regional statistics, which the local collection doesn't support.

6. AOB and date of next meeting

- 6.1. The panel noted that they would like to meet again, after the House of Lords committee report has been released, to write a letter to John Pullinger with advice on how to proceed with the RPI. Prior to this meeting, panel members should submit their views on the recommendations from that report inquiry.
- 6.2. No further business was raised.
- 6.3. The next scheduled Stakeholder Panel meeting will take place on Friday 25 January 2019.

Actions

No.	Action	Person Responsible
1	ONS to carry forward relevant actions from the previous meeting	Ms Jaya Jassi
2	ONS to circulate agenda and papers for the additional Technical Panel meeting to the Stakeholder Panel	Ms Jaya Jassi
3	Technical Panel to revisit the formula issue and consider how the clothing issue could be addressed	Technical Panel

Actions carried forward from Stakeholder Panel meeting 25 May 2018

No.	Action	Person Responsible
1	ONS to make contact with industry experts (including car leasing companies) on used car prices	Mr Andy King
2	ONS to update the work programme according to comments	Mr Andy King
3	ONS to do some further analysis on the impact of the 2010 change in methodology on the incidence of large price changes in the microdata	Ms Jaya Jassi
4	ONS to include the Carli index in clothing analysis	Ms Jaya Jassi
5	ONS to update the HCIs paper according to comments prior to publication	Mr Chris Payne